STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

Landcar Casualty Company

of

Sandy, Utah

as of

December 31, 2005

Table of Contents

May 10, 2007

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Kent Michie, Commissioner
Secretary, Western Zone
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-1201

Commissioner Michie,

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2005 of the financial condition and business affairs of

Landcar Casualty Company

Sandy, Utah

hereinafter referred to as (the Company), and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last financial examination of the Company was conducted as of December 31, 2002. The current examination covers the period from January 1, 2003, through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

This examination was conducted under the Association plan of the National Association of Insurance Commissioners (NAIC), in accordance with the NAIC Financial Condition Examiners Handbook. The Utah Insurance Department (the Department) represented the Western Zone. The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2005. This included tests of accounting records and a review of the Company's affairs and practices to the extent deemed necessary. Material assets were valued, ownership was verified, and liabilities were determined in accordance with the laws, rules and procedures prescribed by the state of Utah.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided working papers prepared in connection with its audits.

A letter of representation obtained from management certified that all significant matters were disclosed and all records were provided for examination.

The examination relied on the findings of the actuarial firm employed by the Company to verify: (1) Aggregate reserves for life and accident and health policies; (2) Liability for policy and contract claims; and (3) Provision for experience rating refunds. The examination tested the completeness of records and accuracy of the underlying data used to establish reserve amounts.

Status of Prior Examination Findings

Adverse findings noted in the prior report of examination were either adequately addressed by the Company or are identified as repeat exceptions in this report.

HISTORY

General

The Company is a casualty insurer originally incorporated in the state of Colorado on October 3, 1989, as Landcar Insurance Company of Colorado.

During 1995 application for re-domestication was made with the state of Utah. The application was approved and the name of the Company was changed to Landcar Casualty Company. A certificate of authority to operate in the state of Utah was granted September 29, 1995.

The bylaws of the Company were amended and restated to reflect its domicile in the state of Utah and adopted on December 28, 1998. There were no amendments to the articles of incorporation or bylaws during the period of examination.

As of December 31, 2005, the Company was authorized to write property, liability and credit guarantee lines of insurance. From its inception through 2003 the Company's primary source of business was providing reinsurance required by providers of automobile service contracts. A Guaranteed Auto Protection (GAP) policy was added as additional product during 2003.

Capital Stock

As of December 31, 2005, 1,000,000 shares of common stock with a $5 par value, were authorized, with 200,000 shares issued and outstanding. All of the issued and outstanding shares of stock were owned by the Larry H. Miller family.

Dividends to Stockholders

During the year ended December 31, 2003, the Company distributed a cash dividend of $200,000 to shareholders.

Management

Management of the Company was vested in its board of directors. Members of the board of directors as of December 31, 2005 were:

Name and Residence	Principal Occupation
Lawrence H. Miller Salt Lake City, Utah	Secretary – Treasurer Larry H. Miller Group
Karen G. Miller Salt Lake City, Utah	President Larry H. Miller Group
Bryan J. Miller Sandy, Utah	Vice President Larry H. Miller Group
Gregory S. Miller Sandy, Utah	Senior Vice President Larry H. Miller Group
Roger L. Miller Draper, Utah	Vice President Larry H. Miller Group
Stephen F. Miller Salt Lake City, Utah	Vice President Larry H. Miller Group

Karen R. Williams Grantsville,	Vice President Larry H. Miller Group

Officers of the Company as of December 31, 2005, were:

Name	Title
Karen G. Miller	President
Lawrence H. Miller	Secretary – Treasurer
Bryan G. Miller	Vice President
Gregory S. Miller	Vice President
Roger L. Miller	Vice President
Stephen F. Miller	Vice President
Karen R. Miller	Vice President

As of December 31, 2005, there were no committees of the board of directors. A general manager supervises the operations of the Company.

Conflict of Interest Procedure

Annual conflict of interest statements were submitted to the Company by all members of the board of directors, elected officers of the board of directors, general manager, and accounting manager.

Corporate Records

Minutes of the annual meetings of the shareholders and minutes of the quarterly meetings of the board of directors were reviewed. Based on the review, the Company operates within the scope of its authority, the members of the directors are properly informed of the transactions and affairs of the Company, and participate in the management of operations. Investment transactions for the previous quarter were reviewed and approved.

The report of examination as of December 31, 2002, was reviewed and discussed by the Board of Directors, as required by U.C.A. §31A-2-204(8), during the meeting held on January16, 2004.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

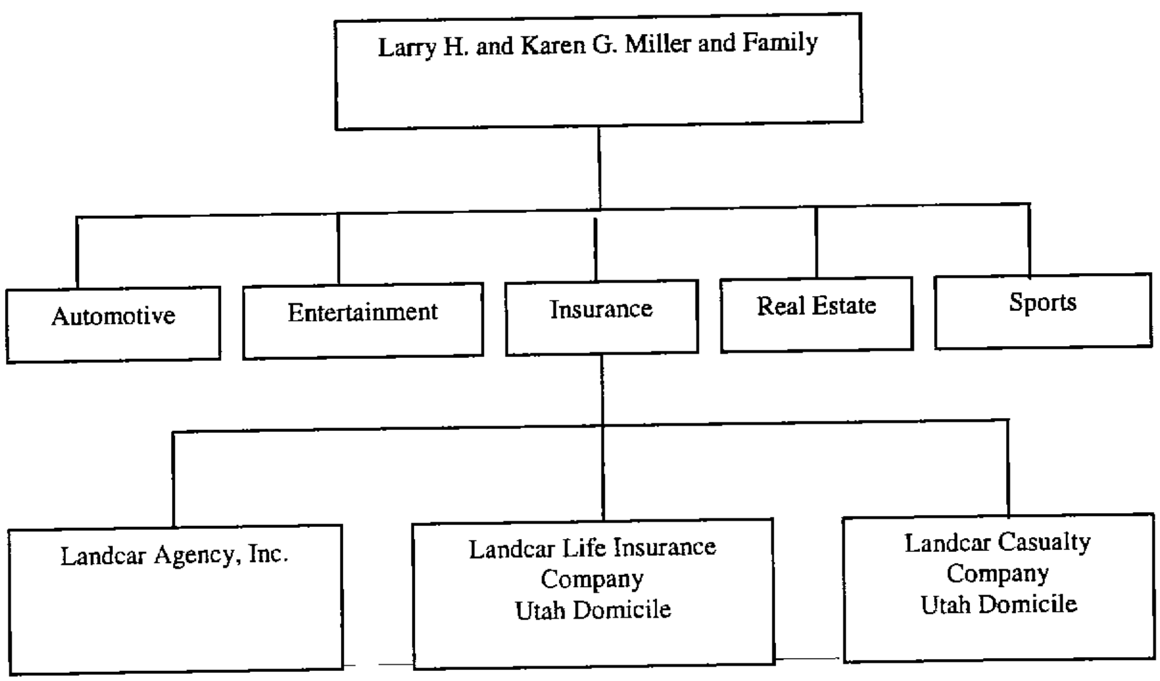
The Company was not involved in acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance during the examination period.

Surplus Debentures

As of December 31, 2005, the Company was not party to any surplus debentures.

AFFILIATED COMPANIES

As of December 31, 2005, Lawrence H. and Karen G. Miller and family owned the Company. As a result, the insurer was a member of an insurance holding company system as described below:



Transactions with Affiliates

Pursuant to a written cost sharing agreement between the Company and its affiliate Landcar Life Insurance Company (LLIC), office facilities, personnel and operating expenses are shared. The Company remits its share to LLIC on a monthly basis. Costs are reviewed and settled at the end of each year.

During the period under examination the Company's transactions with affiliates were as follows:

- Acquired and sold mortgage loans and other securities

- Participated in a cash management account where excess cash from all affiliates is pooled for investment, as mandated by the controlling person. At the end of a reporting period, these funds are returned to the Company.

- Provided mortgage loans on real estate.

- Marketed insurance products to customers of affiliated automobile dealerships.

Insurance holding company registration statements were filed with the Department during the examination period, as required by U.C.A. §31A-16-105.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured under a policy providing $1,000,000 coverage of losses associated with employee dishonesty. As of December 31, 2005, this coverage was in excess of the $150,000 minimum fidelity coverage suggested by the NAIC.

The Company was a named insured under other policies providing coverage of losses associated with other risks of doing business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

U.C.A § 31A-5-211(1) requires that the Company maintain minimum required capital of $600,000. U.C.A § 31A-4-105 requires funds of this amount be maintained on deposit in behalf of the Department. Deposits maintained in behalf of regulatory agencies as of December 31, 2005 were as follows:

State	Description	Statement Value	Fair Value
For the benefit of all policyholders:			
Utah	Federal Home Loan Bank	$880,000	$849,848
	Utah State Building	940,000	949,278
		1,820,000	1,799,126
Not for the benefit of policyholders:			
New Mexico	Federal Farm Credit Banks	100,000	97,437
	Federal Home Loan Mortgage Corp	25,000	24,133
		125,000	121,570
Texas		100,000	97,625
		$2,045,000	$2,018,321

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms

As of December 31 2005, the Company underwrote two policies: 1) A Service Contract Reimbursement policy for an affiliate and 2) A Guaranteed Auto Protection (GAP) policy for customers of automobile dealerships using a lender to finance the purchase.

The service contract reimbursement policy provides insurance coverage for all obligations and liabilities incurred by service contract providers under the terms of service contracts issued, as required by U.C.A. § 31A-6a-101(6). The GAP policy provides coverage of risk of loss of the covered vehicle, from which the proceeds of recovery was less than the amount owed to the lender.

Liability of the Company is limited by the provisions of each approved service contract insured. For GAP the liability is $100,000 per policy.

Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to transact casualty insurance business in the states of Arizona, Colorado, Idaho, New Mexico, Oregon, Texas and Utah. The Company was admitted to the state of New Mexico on July 9, 2003. Operations have not been conducted in the state of Texas.

Sales are generated primarily by automobile dealerships owned by an affiliate. Individuals, employed by the dealership and licensed by the respective states, conduct sales of insurance.

Advertising and Sales Material

As of December 31, 2005, the Company did not utilize commercial advertising. The marketing of the Company's insurance products was performed during the sale of automobiles by automobile dealerships. Each dealership employs a minimum of one agent licensed by the state's regulatory agency.

Treatment of Policyholders

No complaints were filed with the Department during the three years ended December 31, 2005. No items of concern were encountered during the course of the examination.

REINSURANCE

As of December 31, 2005, the Company did not accept or cede reinsurance. Reinsurance assumed as of December 31, 2002 was terminated during the period under examination.

ACCOUNTS AND RECORDS

The Company's accounting system was electronic, designed and programmed to extract reports from a database consisting of historical records for all contracts of insurance and other financial transactions generated by operations.

U.C.A. § 31A-4-113 requires that each authorized insurer file a true statement of its financial condition and affairs as of December 31 of the preceding year in accordance with the annual statement instructions and the accounting practices and procedures published by the NAIC. The NAIC Annual Statement instructions provide "...a statement is not considered filed unless the information therein is complete and accurate."

Exceptions encountered during the examination:

1. Compliance with Instructions to Annual Statement:

    a. All transactions with affiliates were not reported in Schedule Y, Part 2 of the Annual Statements filed during the period under examination. Instructions found on Page 292 of NAIC Annual Statement Instructions provides in part:

    ...All insurer members of the holding company shall prepare a common schedule for inclusion in each of the individual annual statements. Include transactions between insurers and non-insurers within the holding company system.

    The Company failed to include, a cash dividend paid to shareholders, the acquisitions of mortgages on real estate from an affiliate, and the granting of a mortgage to an affiliate.

2. Statutory Compliance

    a. U.C.A § 31A-16-106(1)(b) requires that certain transactions involving a domestic insurer and any person in its holding company system may not take place unless the insurer has notified the commissioner, in writing, of its intention to enter into the transaction at least 30 days prior to entering into the transaction.

    During the period under examination, the Company entered into several transactions requiring notice to the commissioner 30 days prior to the effective date. The notices were filed after the transactions were completed.

    During the year ended December 31, 2005, the Company sold a mortgage to an affiliate. The required notice was not filed.

    b. U.C.A § 31A-4-108 (1) requires that insurers hold all investments and deposits of its funds in its own name except securities kept under a custodial agreement or trust arrangement with a bank or certain other qualified institutions. Utah Administrative Code (U.A.C.) Rule R590–178-5 provides guidance for standards of control a custodial agreement must meet.

    As of December 31, 2005, investment securities were held in accounts with a bank and a brokerage firm in the Company's behalf. Accounts with the bank were covered by custodial agreements but the agreements did not contain the safeguards required by rule. There was not an agreement with the brokerage firm.

U.A.C. Rule R590-178-5.B provides: "Custodial securities held in violation of this rule shall be excluded when determining and reporting financial condition of insurers."

As of December 31, 2005, the Company reported $5,806,127 invested in bonds, stocks and short-term investments. Of this $3,756,859 of securities were held by institutions in violation of the rule. As result, the investment in bonds and stocks and short-term investments should not be counted for purposes of determining and reporting financial condition for examination.

Prior to the conclusion of the examination, the Company negotiated and put in place custodial agreements that were in compliance with U.C.A § 31A-4-108 (1) and U.A.C. Rule R590-178-5. As a result, the Department waived the requirement for reduction of assets.

c. U.C.A. §31A-18-106(4) establishes a 10% limitation for investments in a single entity. As of December 31, 2005, the Company held an investment, the value of which was $633,101 in excess of the 10% limitation. As a result, these assets are not qualified and may not be used in determining the financial condition of an insurer, as provided by U.C.A. §31A-17-201(2). However, the Company has $2,638,298 of excess surplus as defined by U.C.A § 31A -18-108 and as a result, the $633,101 was treated as an asset for purposes of determining the financial condition of the Company for the examination.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

Balance Sheet as of December 31, 2005
Summary of Operations for the Year Ended December 31, 2005
Reconciliation of Capital and Surplus – 2003 through 2005

The accompanying notes to financial statements are an integral part of these statements.

Landcar Casualty Company
Balance Sheet
As of December 31, 2005

ASSETS

Bonds	$3,911,572
Preferred stocks	1,066,490
Common stocks	384,065
First liens - mortgage loans on real estate	150,400
Cash, cash equivalents and short-term investments	22,380
Other invested assets	444,000
Investment income due and accrued	48,629
Uncollected premiums	153,351
Current federal income tax recoverable	4,197
Net deferred tax asset	181,940
Total	$6,367,024

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$426,585
Loss adjustment expenses	19,136
Other expenses	23,347
Taxes, licenses and fees due or accrued, excluding federal income taxes	10,946
Unearned premiums	3,049,653
Payable to parent, subsidiaries and affiliates	1,370
Total liabilities	3,531,037
Capital and surplus	
Common capital stock	1,000,000
Gross paid in and contributed surplus	462,000
Unassigned funds (surplus)	1,373,987
Total capital and surplus	2,835,987
Total liabilities and capital and surplus	$6,367,024

Landcar Casualty Company
Summary of Operations
For the Year Ended December 31, 2005

Premiums earned	$996,483
Deductions	
Losses incurred	845,148
Loss expenses incurred	38,954
Other underwriting expenses	160,037
Total underwriting deductions	1,044,139
Net underwriting gain (loss)	(47,656)
Net investment income	285,119
Net realized capital gains (loss)	450
Net investment gain (loss)	237,913
Other income	0
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	237,913
Dividends to policyholders	0
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	237,913
Federal and foreign income taxes incurred	109,061
Net income	$128,852

Landcar Casualty Company
Reconciliation of Capital and Surplus
For the Years Ended December 31,

	2003	2004	2005
Capital and surplus, December 31, prior year	$2,711,798	$2,751,432	$2,834,016
Net income	231,415	50,458	128,852
Change in net unrealized capital gains or (losses)	8,219	32,126	(277,354)
Change in net deferred income tax			195,862
Change in nonadmitted assets and related items			(45,390)
Dividends to stockholders	(200,000)		
Round			1
Net change in capital and surplus for the year	39,634	82,584	1,971
Capital and surplus, December 31, current year	$2,751,432	$2,834,016	$2,835,987

CAPITAL AND SURPLUS

As of December 31, 2005, the Company's permanent surplus requirement was $600,000, as required by U.C.A. § 31A-5-21.

The Company reported total adjusted capital (TAC) and authorized control level risk-based capital (RBC) as defined by U.C.A § 31A-17 Part 6, of $2,835,987 and $108,437, respectively.

SUMMARY OF EXAMINATION FINDINGS

The following is a summary of examination findings and information of special significance:

1. The Company did not comply with the NAIC Annual Statement Instructions, as required by U.C.A. § 31A-4-113. (ACCOUNTS AND RECORDS)

   It is recommended that the Company develop and document procedures based on instructions contained in the NAIC Annual Statement Instructions, including procedures based on instructions in the Manual of the NAIC SVO, to be used when completing the relevant schedules of annual and quarterly statement filings made with the Department.

2. The Company did not comply with U.C.A.§ 31A-16-106(1) which requires that the commissioner receive advance notice of certain transactions involving a domestic insurer and any person in its holding company system, prior to the insurer entering into the transaction. (ACCOUNTS AND RECORDS)

3. The Company did not comply with U.C.A. § 31A-4-108(1), which requires that insurers hold all investments in its own name except securities kept under custodial agreements. (ACCOUNTS AND RECORDS)

4. The Company did not comply with U.A.C. Rule R590-178-5.B, which requires the exclusion of securities held in violation of this rule when determining and reporting financial condition of insurers. (ACCOUNTS AND RECORDS)

   Prior to the conclusion of the examination, the Company executed custodial agreements which comply with both statute and rule. As a result the Department waived the requirement that the assets be excluded.

ACKNOWLEDGEMENT

We acknowledge the assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company. In addition to the undersigned, Colette Reddoor, CFE, CPM, Assistant Chief Examiner, Dan Applegarth, CPA, CFE, Financial Analyst, and John Kay, CFE, CIE representing the Department, participated in the examination.

Respectfully submitted,

Larry H. Whitlock, CPA, CFE
Examiner in Charge
Representing the
Utah Insurance Department